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SUBJECT: NORINCO BRIEFS EMBASSY ON ITS EXPORT CONTROL
COMPLIANCE EFFORTS

REF: A. 06 BEIJING 13341
[1](#)B. 07 STATE 155042

Classified By: Charge d'Affaires, a.i., Dan Piccuta. Reasons 1.4 (b/d)

Summary

[1](#)1. (C) NORINCO management wants to end the "distorted image" of the firm and become a "decent member of the international community," NORINCO Vice President Zhi Yulin told the Charge in a March 27 meeting. Zhi believes the firm's experience building infrastructure projects creates an opportunity for NORINCO and the United States to cooperate in "turbulent countries." Although acknowledging that "differences" remain over the firm's conventional weapons sales to "some countries," NORINCO is willing to discuss this further with the United States, Zhi said. NORINCO's Internal Compliance Program (ICP) is "not for show" and will be computerized and "further improved." The Charge welcomed future, detailed exchanges with NORINCO and said the list of questions presented to NORINCO during an October meeting in Washington (ref B) could form the basis of future conversations. Being honest and frank about the past and the future will help build trust, he stressed. Following the meeting, NORINCO officials took EmbOffs on a tour of the firm's showroom of weapons systems (septel) and answered questions about the firm's audit procedures and its relationship with the Ministry of Commerce. COMMENT: Although the meeting did not provide significant new insights into NORINCO's compliance operations, the meeting afforded a good opportunity for EmbOffs to encourage greater transparency and lay down markers for future cooperation. End Summary/Comment.

[1](#)2. (C) In a March 26 meeting with the Charge and EmbOffs, NORINCO Vice Presidents Zhi Yulin and He Xiaodong discussed NORINCO's efforts to implement an export control compliance program. Zhi thanked the United States for lifting the proliferation sanctions that had been imposed on NORINCO and for the U.S. Government's continued willingness to engage in discussions with NORINCO officials. Effective implementation of nonproliferation and export control policies requires communication and the combined commitment of the international community, he said. Recalling the June 2006 visit of then-DCM David Sedney and EmbOffs to NORINCO (ref A), Zhi said that meeting "opened the gate" to direct communication between the U.S. Government and NORINCO, and led to additional "wide ranging, productive" discussions. Although "differences and different interests" between both sides remain, dialogue has helped "develop understanding and build mutual trust." NORINCO hopes to "shelve these differences" while seeking "common ground."

[1](#)3. (C) Differences exist, Zhi acknowledged, because of NORINCO's weapons exports to "some countries." This issue requires further discussion, he said. Through dialogue, NORINCO can better understand U.S. concerns and "strike a balance between risk and opportunity." Although NORINCO has already given up "a lot" by forgoing trading with "some

companies," the firm's export of conventional weapons will not come to a "complete stop." The firm will adopt a "cautious approach" when dealing with "some countries and some products," he stated.

Zhi Describes NORINCO's Export Control Policies

14. (C) Zhi said NORINCO is setting an example for other Chinese firms by "comprehensively" abiding by Chinese export control laws and policies. NORINCO's leadership and staff believe the firm must undertake socially responsible behavior and be an "active force" in preventing proliferation. Proliferation is not in Chinese or U.S. interests. As a "responsible company," NORINCO has adopted measures to prevent the proliferation of conventional weapons and dual-use items and technology, Zhi claimed, and has taken the initiative to forgo export contracts that might impair regional or global stability. NORINCO has placed export control compliance and nonproliferation over its commercial interests, he stated. (Note: VP He told us later that NORINCO walked away from worldwide sales to "sensitive countries" worth USD 70 million.)

15. (C) Zhi said NORINCO is the first company in China to establish an Internal Compliance Program (ICP). The firm's ICP "is not for show," he remarked, but an obligation owed by NORINCO Group's 700,000 employees to the Chinese Government. NORINCO's President has authorized the firm's ICP Council (which Zhi heads) to have the final decision on sales orders. The firm has been carrying out "extensive" export control training at its "major subsidiaries" in cooperation with the University of Georgia (UGA). Senior business managers have also been sent to the United States for training. Zhi said the Ministry of Commerce (MOFCOM) uses NORINCO's ICP as a template for other Chinese firms to adopt. UGA has given NORINCO's ICP "high appraisal" and has provided suggestions on how to strengthen it, Zhi said.

16. (C) In the second half of 2008 or early next year, Zhi told us, NORINCO plans to take two steps: First, the firm, with UGA's cooperation, will "further improve" its ICP, particularly the "management elements" of the program. Second, the firm will make its ICP "automatic and electronic" by establishing a computerized order screening procedure. To accomplish this, NORINCO plans to purchase software from Price Waterhouse and employ the services of two UGA experts. Moreover, the firm will create a database of "sensitive clients and products" by combining the Harmonized Tariff System with a commodity classification system presently being developed by the General Administration of China Customs. The implementation of NORINCO's ICP can not be accomplished in one day, Zhi contended, as management procedures continuously change as do the firm's "sensitive clients and products."

The NORINCO Family

17. (C) Zhi explained that NORINCO was once part of the Fifth Industrial Ministry and was responsible for the research and development and manufacture of products developed by the ministry. NORINCO at that time was not permitted to export products developed by other ministries -- a prohibition that still exists, he said. NORINCO has since expanded beyond military equipment manufacturing and today operates in three main business areas: conventional military items and services, petroleum services and "civilian goods." NORINCO is the biggest manufacturing group in China, he claimed. (Note: Zhi told us later that NORINCO is the fourth largest automobile manufacturer in China and is involved in mining and the manufacture of heavy mining equipment, automobile parts, luxury buses, plastics and chemicals.)

18. (C) Zhi said the firm has "two mothers": China North Industry Company and China South Industry Company. The sales volume of these two entities ranks eighth and ninth in China respectively, he stated, and if combined would be the largest

in China. (Note: A copy of a PowerPoint presentation that Zhi did not use but was given to us indicates that NORINCO subsidiaries include China Wanbao Engineering, NORIMC Logistics, NORINCO International, and "others;" and that NORINCO has overseas branches in France, Pakistan, Saudi Arabia, South Africa, the UAE and "others.")

¶9. (C) Zhi said the total sales volume of NORINCO in 2007 was approximately USD 4 billion. Military sales, he explained, comprise 14 percent of the firm's total sales. (Note: Zhi said earlier in the conversation that the firm's total sales were USD 1 billion. He also said military sales are equivalent to 20 percent of total sales and the PowerPoint document states that "civilian business takes up more than 85% of revenue.")

Zhi Looks to the Future

¶10. (C) After the United States imposed sanctions on NORINCO in 2003, Zhi said, the firm was "expelled" from the U.S. market and stopped purchasing U.S.-origin goods. He called this a "lose-lose" situation. NORINCO is capable of selling civilian commodities and carrying out infrastructure development projects, including constructing power stations and electric railways. We should be cooperating in "developing and turbulent countries," like Afghanistan and Iraq, he said. NORINCO wants to end the "distorted image" that many have of the firm in the United States. NORINCO wants to be seen as a "decent member of the international community," Zhi stressed, and wants to work with the United States to create a "win-win" situation.

Charge Urges NORINCO to Deepen its Dialogue

¶11. (C) The Charge thanked Zhi for the presentation and said he appreciates the firm's willingness to discuss its export control compliance program. He welcomed future, detailed exchanges with company officials. He said we look forward in particular to learning more about NORINCO's ICP and its relationship with PRC ministries, particularly MOFCOM, and he offered the Embassy's assistance to help the firm better understand U.S. nonproliferation and export control policies. Referring to the list of questions presented to NORINCO officials during their October meeting at the Department (ref B), the Charge said the questionnaire could form the basis of future conversations. Being honest and frank about the past and the future will help build trust, he stressed.

¶12. (C) Following the meeting, Zhi and He took EmbOffs (minus the Charge) on a tour of NORINCO's salesroom where the firm displays samples of the military equipment it manufactures, including tanks, artillery, small arms, bombs and weapons systems. (Details on the facility will be reported septel.)

NORINCO raises VEU Concerns

¶13. (C) At a dinner for EmbOffs following the tour of the exhibition facility, NORINCO VP He Xiaodong said the firm pays close attention to changes in U.S. export control policy, citing the "China policy rule" as an example. He asked Embassy Export Control Officer (ECO) to clarify the validated end user (VEU) program, saying that he knew MOFCOM was uneasy with the program and in particular with the on-site review provisions. When asked why he thought MOFCOM has this view, VP He offered several reasons: anything new automatically engenders a negative reaction, the program is difficult to understand, the application process appears to be intrusive in the amount and depth of the information required, and MOFCOM is concerned with on-site inspection procedures over which it does not appear to have control. After listening to ECO's description of the U.S. Government's year-plus consultative process with MOFCOM, VP He said this was the clearest explanation of the VEU he has heard and suggested reiterating this to MOFCOM. He offered NORINCO's assistance in approaching MOFCOM on this issue.

NORINCO and MOFCOM: Interesting Bedfellows

¶14. (C) VP He and NORINCO ICP Director Cui Zheng explained the firm's role in helping MOFCOM Export Control Division II set up a consulting company (Beijing Long-Lat Consulting Company) to assist Chinese firms to develop and implement ICPs. They said a NORINCO employee, Tan Meili, is one of three employees of this consulting company. The NORINCO officials described the work of this consulting company as partially to set up training programs for MOFCOM, citing as an example a training program that took place on March 25 in Nanjing. Cui revealed that the "experts panel" serving under MOFCOM's Export Control Division II has been subsumed under the auspices of this consulting firm. (Note: This "experts panel" had previously been described to EmbOffs as an ad hoc collection of academic and NGO experts that advises MOFCOM on the export of sensitive dual-use commodities.) Cui turned to ECO and stated, "You know many people on this panel." He then went on to name a number of ECO's contacts, noting that he is also a member of the "experts panel." Additionally, the NORINCO officials said the firm provides funding to the consulting firm (150,000 RMB per year) as well as 200,000 RMB per year to the China Arms Control and Disarmament Association (CACDA).

NORINCO's Audit Procedures

¶15. (C) When asked how NORINCO tests the effectiveness of its ICP, Zhi said the firm relies on its internal audit office and experts from CACDA and UGA to perform this function. The internal audit office reports anomalies to NORINCO's President. NORINCO's internal auditors do not audit overseas branches, VP He noted, nor does the firm hire foreign auditors to perform this service. NORINCO's country managers "know all of the sensitive players" in their respective countries and are adept at screening customers, he said, adding that most of NORINCO's business is based on repeat customers. The firm also screens customers against international control lists. VP He mentioned the U.S. and German designated nationals list. The firm screens transactions against a list of "sensitive countries," although the NORINCO officials did not state which countries are on this list. They reiterated that NORINCO ensures its exports do not impair "regional and global stability." (Note: The PowerPoint presentation also states that exports "should not be used to interfere with other countries internal affairs.")

¶16. (C) When asked if PRC officials opposed NORINCO's decision to establish an ICP because it conceded to U.S. sanctions, Zhi said the firm did not face any obstacles. The firm took into account political concerns before moving forward, he said, noting that NORINCO's President is a member of the CCP Central Committee.

Comment

¶17. (C) Our meeting with NORINCO did not provide significant new insights into NORINCO's ICP or export compliance operations. However, the extensive discussions on NORINCO's relationship with MOFCOM and the tour of the company's showroom of weapons systems afforded a good opportunity for EmbOffs to encourage greater transparency by NORINCO and lay down markers for future cooperation.

¶18. (U) Participants

United States

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Jeannette Chu, Embassy Export Control Attache

China

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End Cable Text